

ETHNIC MINORITY WORKERS: THE EMPLOYMENT EFFECTS OF DISCRIMINATION AND CITY STRUCTURE

How well individuals from ethnic minorities do in the labour market is heavily influenced by the structure of the particular city in which they live and work. Because of discrimination, if they live far away from where the jobs are and/or in residentially segregated neighbourhoods, they are going to have worse outcomes than if they lived closer to jobs or in more mixed neighbourhoods.

That is the conclusion of a new study of city structure, job search and labour market discrimination by **Harris Selod** and **Yves Zenou**, published in the *Economic Journal*.

Should anti-discrimination policies differ in London or Birmingham? The surprising answer is *probably yes* according to Selod and Zenou's urban unemployment theory. Given that in many countries anti-discrimination policies, if any, are designed at a national level, this finding calls for a metropolitan approach to labour market policies.

In their theory, the labour market outcomes of ethnic minorities are tightly linked to the spatial organisation of cities. This is because the degree of residential segregation between population groups and the extent of the disconnection between places of work and places of residence significantly affect the different channels through which unemployed minority workers can find a job.

The theory runs as follows. Residential segregation spontaneously forms in a city when at least two population groups, for example a majority 'white' group and a minority 'black' group (or any other relevant minority group), value living with neighbours of the same racial background. The extent of these racial preferences is such that families are ready to live very far away from central places where jobs are located just in order to benefit from a racially homogenous residential neighbourhood.

In this context, the unemployed workers of communities that live far away from jobs tend to experience difficulties finding a job because of 'informational frictions' in their job search. Their unemployment spells and the community's unemployment rate are in turn mechanically increased.

But since blacks are also discriminated against by employers (who may prefer to hire whites), blacks and whites are not equally affected by distance to jobs. In city structures where whites reside far away from jobs, physical distance and the labour market preferences of employers in favour of whites tend to offset one another, so that whites are little affected by their location within the city.

In contrast, in city structures where blacks reside far away from jobs, distance to jobs and labour market discrimination against blacks combine to aggravate unemployment.

But this is not the end of the story since finding a job also involves resorting to one's social network, which is built on local connections, and thus depends on the extent of residential segregation. The idea is that unemployed workers who live among other unemployed workers are less likely to have indirect connections to employers who could hire them. This further aggravates the unemployment problem of blacks when they are segregated from whites.

But there is a third group of blacks that Selod and Zenou label 'status-seekers' and who do not choose to isolate themselves residentially from the majority white group. For unemployed workers in the status-seeking group, the harmful effects of labour market discrimination and job isolation are partially offset by the possibility to exchange information with some of their white neighbours.

Selod and Zenou provide a deep analysis of their theory's implications for labour market analysts and policy makers. They reach three main conclusions:

- First, because ethnic minorities are discriminated against, their labour market outcomes crucially depend on their proximity to jobs and availability to escape residential segregation, whereas this is not the case for the majority group.
- Second, minorities are usually less discriminated against when they reside close to jobs.
- Third, a comparison of quota policies versus subsidies for hiring of minority workers suggests that quotas should dominate employment subsidies, especially in cities where minorities are far away from jobs. This is because the first policy only has a *psychological cost* whereas the second one has a *monetary cost*. Employment subsidies, however, may be preferable given that they let firms *freely choose* whom they want to hire instead of imposing a *hiring constraint*.